

RURAL WATER DISTRICT NO. 3

Rooks County, Kansas

FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT

For the Year Ended December 31, 2019

MAPES & MILLER LLP
Certified Public Accountants
Stockton, Kansas

RURAL WATER DISTRICT NO. 3
For the Year Ended December 31, 2019

BOARD OF DIRECTORS

Don Benoit – Chairman

Norma Braun – Vice-Chairman

Roger Comeau – Secretary/Treasurer

Jimmy Jackson

James Ochampaugh

Darren Rubottom

RURAL WATER DISTRICT NO. 3
Rooks County, Kansas
For the Year Ended December 31, 2019

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MAPES & MILLER LLP

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Rural Water District No. 3
2335 Highway 183
Plainville, KS 67663

We have audited the accompanying fund summary statement of regulatory basis receipts, expenditures, and unencumbered cash balances of Rural Water District No. 3, Rooks County, Kansas as of and for the year ended December 31, 2019 and the related notes to the financial statement.

Management's Responsibility for the Financial Statement

Management is responsible for the preparation and fair presentation of this financial statement in accordance with the *Kansas Municipal Audit and Accounting Guide* as described in Note 1; this includes determining that the regulatory basis of accounting is an acceptable basis for the preparation of the financial statement in the circumstances. Management is also responsible for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of the financial statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the *Kansas Municipal Audit and Accounting Guide*. Those standards require we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies use and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 1 of the financial statement, the financial statement is prepared by the District on the basis of the financial reporting provisions of the *Kansas Municipal Audit and Accounting Guide*, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

The effects on the financial statement of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the “Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles” paragraph, the financial statement referred to above does not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of Rural Water District No. 3, Rooks County, Kansas, as of December 31, 2019, or changes in financial position and cash flows thereof for the year then ended.

Unmodified Opinion on Regulatory Basis of Accounting

In our opinion, the financial statement referred to above presents fairly, in all material respects, the aggregate cash and unencumbered cash balance of Rural Water District No. 3, Rooks County, Kansas as of December 31, 2019, and the aggregate receipts and expenditures for the year then ended in accordance with the financial reporting provisions of the *Kansas Municipal Audit and Accounting Guide* described in Note 1.

***Other Matters
Supplementary Information***

Our audit was conducted for the purpose of forming an opinion on the fund summary statement of regulatory basis receipts, expenditures, and unencumbered cash balances (basic financial statement) as a whole. The individual fund schedule of regulatory basis receipts and expenditures (Schedule 1 as listed in the table of contents) is presented for analysis and is not a required part of the basic financial statement, however is required to be presented under the provisions of the *Kansas Municipal Audit and Accounting Guide*. The schedule of changes in capital assets (Schedule 2 as listed in the table of contents) is presented for analysis and is not a required part of the basic financial statement. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statement. The information has been subjected to the auditing procedures applied in the audit of the basic financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statement or to the basic financial statement itself, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statement as a whole, on the basis of accounting described in Note 1.

We also previously audited, in accordance with auditing standards generally accepted in the United States of America, the basic financial statement of Rural Water District No. 3, Rooks County, Kansas as of and for the year ended December 31, 2018 (not presented herein), and have issued our report dated September 4, 2019, which contained an unmodified opinion on the basic financial statement. The 2018 basic financial statement and our accompanying report are not presented herein, but are available in electronic form from the web site of the Kansas Department of Administration at the following link <http://www.admin.ks.gov/offices/chief-financial-officer/municipal-services>. The 2018 actual column (2018 comparative information) presented in the individual fund schedule of regulatory basis receipts and expenditures for the year ended December 31, 2018 (Schedule 1 as listed in the table of contents) is for additional analysis and is not a required part of the basic financial statement. Such 2018 comparative information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the 2018 basic financial statement. The 2018 comparative information was subjected to the auditing procedures applied in the audit of the 2018 basic financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the 2018 basic financial statement or to the 2018 basic financial statement itself, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the 2018 comparative information is fairly stated in all material respects in relation to the basic financial statement as a whole for the year ended December 31, 2018, on the basis of accounting described in Note 1.

Mapes & Miller LLP

Certified Public Accountants

October 7, 2020
Stockton, Kansas

RURAL WATER DISTRICT NO. 3
Rooks County, Kansas

Statement 1

SUMMARY STATEMENT OF RECEIPTS, EXPENDITURES, AND UNENCUMBERED CASH
Regulatory Basis
For The Year Ended December 31, 2019

FUNDS	Beginning	Prior Year	Receipts	Expenditures	Ending	Add	Ending
	Unencumbered	Cancelled			Unencumbered	Encumbrances	
	Cash Balance	Encumbrances			Cash Balance	Payable	Cash Balance
Business Fund:							
Water Utility Fund	\$ 671,862	\$ -	\$ 345,588	\$ 344,349	\$ 673,101	\$ 12,718	\$ 685,819

COMPOSITION OF CASH:

Solutions North Bank	
Stockton, Kansas	
Checking Account	\$ 425,574
Money Market Account	99,289
Money Market Account	38,305
Total Solutions North Bank	<u>563,168</u>
Astra Bank	
Plainville, Kansas	
Certificates of Deposit	<u>122,651</u>
Total Reporting Entity	<u>\$ 685,819</u>

The notes to financial statement are an integral part of this statement.

RURAL WATER DISTRICT NO.3
Rooks County, Kansas
NOTES TO THE FINANCIAL STATEMENT
For the Year Ended December 31, 2019

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

The District was incorporated on September 21, 1976. Rural Water District No. 3 was formed as a public body under the provisions of K.S.A. 82a-613 et seq and is exempt from federal and state income taxes. The purpose of the District is to acquire water and water rights, to build and acquire pipelines and other facilities; to operate the same for the purpose of furnishing water for domestic, garden, livestock and other purposes to owners and occupants of land located within the District, and to others as authorized by the by-laws.

Regulatory Basis Fund Types

The following regulatory basis fund types comprise the financial activities of the District for the year of 2019:

Business Fund – funds financed in whole or in part by fees charged to users of the goods or services (i.e. enterprise and internal service fund, etc.).

Regulatory Basis of Accounting and Departure from Accounting Principles Generally Accepted in the United States of America

The KMAAG regulatory basis of accounting involves the recognition of cash, cash equivalents, marketable investments, and certain accounts payable and encumbrance obligations to arrive at a net unencumbered cash and investments balance on a regulatory basis for each fund, and the reporting of changes in unencumbered cash and investments of a fund resulting from the difference in regulatory basis receipts and regulatory basis expenditures for the fiscal year. All recognized assets and liabilities are measured and reported at cost, unless they have been permanently impaired and have no future cash value or represent no future obligation against cash. The KMAAG regulatory basis does not recognize capital assets, long-term debt, accrued receivables and payables, or any other assets, liabilities or deferred inflows or outflows, other than those mentioned above.

The District has approved a resolution that is in compliance with K.S.A. 75-1120a(c), waiving the requirement for application of generally accepted accounting principles and allowing the District to use the regulatory basis of accounting.

2. RESTRICTED UNENCUMBERED CASH

Under the terms of a loan resolution security agreement between the District and USDA Farmers Home Administration the following business fund cash is restricted for specific purposes:

	<u>2019</u>	<u>2018</u>
Unencumbered Cash Restricted for Reserve	\$118,745	\$118,745
Unencumbered Cash Available for Operations	<u>554,356</u>	<u>553,117</u>
Total Unencumbered Cash	<u>\$673,101</u>	<u>\$671,862</u>

3. DEPOSITS AND INVESTMENTS

K.S.A. 9-1401 establishes the depositories which may be used by the District. The statute requires banks eligible to hold the District's funds have a main or branch bank in the county in which the District is located, or in an adjoining county if such institution has been designated as an official depository, and the banks provide an acceptable rate of return on funds. In addition, K.S.A. 9-1402 requires the banks to pledge securities for deposits in excess of FDIC coverage. The District has no other policies that would further limit interest rate risk.

K.S.A. 12-1675 limits the District's investment of idle funds to time deposits, open accounts, and certificates of deposit with allowable financial institutions; U.S. government securities; temporary notes; no-fund warrants; repurchase agreements; and the Kansas Municipal Investment Pool. The District has no investment policy that would further limit its investment choices.

Concentration of credit risk. State statutes place no limit on the amount the District may invest in any one issuer as long as the investments are adequately secured under K.S.A. 9-1402 and 9-1405.

Custodial credit risk – deposits. Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. State statutes require the District's deposits in financial institutions to be entirely covered by federal depository insurance or by collateral held under a joint custody receipt issued by a bank within the State of Kansas, the Federal Reserve Bank of Kansas City, or the Federal Home Loan Bank of Topeka, except during designated "peak periods" when required coverage is 50%. All deposits were legally secured as of December 31, 2019.

At December 31, 2019, the District's carrying amount of deposits was \$685,819 and the bank balance was \$680,929. The bank balance was held by two banks resulting in a concentration of credit risk. Of the bank balance, \$372,651 was covered by federal depository insurance; \$308,278 was collateralized with securities held by the pledging financial institutions' agents in the District's name.

Custodial credit risk – investments. For an investment, this is the risk that, in the event of the failure of the issuer or counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State statutes require investments to be adequately secured.

4. LOAN AND RESERVE REQUIREMENTS

As shown in Note 12, on July 14, 2009 and April 17, 2012 the District entered into promissory note agreements with USDA Farmers Home Administration to borrow \$1,153,000 and \$942,000, respectively for the cost of construction of a water supply system and improvements. These agreements are secured by a real estate mortgage of the water system assets and operations.

Provisions of the loan agreements make the following requirements:

As required by the July 14, 2009 agreement each month the District shall transfer \$495 into a Reserve Account until such account accumulated to \$59,400. As shown in Note 2, this requirement has been met.

As required by the April 17, 2012 agreement each month the District shall transfer \$495 into a Reserve Account until such account accumulated to \$59,345. As shown in Note 2, this requirement has been met.

5. COMPLIANCE WITH KANSAS STATUTES

No statute violations noted in 2019.

6. COMPENSATED ABSENCES

The District provides two weeks of vacation and two weeks sick leave per year to the Operations Manager. No accrued benefits are paid upon termination.

7. RISK MANAGEMENT

Rural Water District No. 3 is exposed to various risks of loss to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. The District continues to carry commercial insurance coverage to cover these risks. The District has had no significant reduction in insurance coverage from prior years. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years.

8. RELATED PARTY TRANSACTIONS

In the ordinary course of business, the District utilizes services by companies owned and operated by a member of the board of directors. Services provided by these companies were for backhoe services to repair water leaks and snow removal. Total amount paid or to be paid to these companies for the year amounted to \$5,905.

9. SUBSEQUENT EVENTS

Management has evaluated the effects on the financial statements of subsequent events occurring through the date of this report, which is the date at which the financial statements were available to be issued.

10. LONG-TERM DEBT

Changes in long-term liabilities for the District for the year ended December 31, 2019, were as follows:

Issue	Interest Rates	Date of Issue	Amount of Issue	Date of Final Maturity	Balance Beginning of Year	Additions	Reductions/ Payments	Balance End of Year	Interest Paid
Loan Agreements:									
USDA Rural Development	4.125%	07/14/09	1,153,000	07/14/49	\$ 1,020,724	\$ -	\$ 17,163	\$ 1,003,561	\$ 41,781
USDA Rural Development	2.750%	04/17/12	942,000	04/17/52	847,146	-	15,794	831,352	23,098
Total Loan Agreements					<u>\$ 1,867,870</u>	<u>\$ -</u>	<u>\$ 32,957</u>	<u>\$ 1,834,913</u>	<u>\$ 64,879</u>

Current maturities of long-term debt and interest for the next five years and in five year increments through maturity are as follows:

	2020	2021	2022	2023	2024	2025-2029	2030-2034
PRINCIPAL							
Loan Agreements	\$ 34,116	\$ 35,320	\$ 36,568	\$ 37,862	\$ 39,203	\$ 217,938	\$ 259,750
INTEREST							
Loan Agreements	63,720	62,516	61,268	59,974	58,633	271,242	229,430
Total Principal & Interest	<u>\$ 97,836</u>	<u>\$ 97,836</u>	<u>\$ 97,836</u>	<u>\$ 97,836</u>	<u>\$ 97,836</u>	<u>\$ 489,180</u>	<u>\$ 489,180</u>
	2035-2039	2040-2044	2045-2049	2050-2052	Total		
PRINCIPAL							
Loan Agreements	\$ 309,941	\$ 370,254	\$ 408,565	\$ 85,396	\$ 1,834,913		
INTEREST							
Loan Agreements	179,239	118,926	46,721	2,787	1,154,456		
Total Principal & Interest	<u>\$ 489,180</u>	<u>\$ 489,180</u>	<u>\$ 455,286</u>	<u>\$ 88,183</u>	<u>\$ 2,989,369</u>		

RURAL WATER DISTRICT NO. 3
REGULATORY-REQUIRED
SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2019

RURAL WATER DISTRICT NO. 3
Rooks County, Kansas
BUSINESS FUND
SCHEDULE OF RECEIPTS AND EXPENDITURES
Regulatory Basis

Schedule 1

For The Year Ended December 31, 2019
(With Comparative Actual Total for the Prior Year Ended December 31, 2018)

WATER UTILITY FUND

	2019	2018
Receipts:		
Operating Receipts		
Water Sales	\$ 187,371	\$ 195,083
Monthly Meter Fees	133,610	132,090
Late Charges and Other Revenue	14,224	14,446
Other Income	3,320	3,961
Total Operating Receipts	<u>338,525</u>	<u>345,580</u>
Non-Operating Income		
Interest Income	3,063	1,880
Member Investments	4,000	4,000
Total Non-Operating Receipts	<u>7,063</u>	<u>5,880</u>
Total Receipts	<u>345,588</u>	<u>351,460</u>
Expenditures:		
Operator/Manager Salary	69,499	59,717
Secretary/Bookkeeper Salary	23,076	22,384
Director's Fees	9,583	10,224
Payroll Taxes	7,546	6,415
Property Taxes	193	241
Auditing and Accounting	9,743	4,543
Engineering Fees	-	3,917
Legal Fees	-	2,315
Lab Fees	1,558	2,621
Utilities	22,972	24,195
Operating Supplies, Maintenance and Repairs	26,698	24,645
Telephone and Internet	2,578	2,346
Postage	736	1,138
Office Supplies	1,891	2,828
Insurance	13,503	13,336
Vehicle Expense	13,901	12,752
Licenses, Dues and Subscriptions	282	1,368
Meeting Expense	4,849	3,093
Miscellaneous	1,915	2,793
USDA Interest Expense	64,879	65,999
USDA Loan Principal Payments	32,957	31,837
Capital Asset Purchases	<u>35,990</u>	<u>9,044</u>
Total Expenditures	<u>344,349</u>	<u>307,751</u>
Receipts Over (Under) Expenditures	1,239	43,709
Unencumbered Cash, Beginning	<u>671,862</u>	<u>628,153</u>
Unencumbered Cash, Ending	<u><u>\$ 673,101</u></u>	<u><u>\$ 671,862</u></u>

SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2019

RURAL WATER DISTRICT NO. 3

Rooks County, Kansas

Schedule 2

**SCHEDULE OF CHANGES IN CAPITAL ASSETS
For the Year Ended December 31, 2019**

	Capital Assets 1/1/2019	Additions	Deductions	Capital Assets 12/31/2019
Equipment and Tools	\$ 104	\$ -	\$ -	\$ 104
Pumps, Treatment Equipment and Facilities	509,290	6,941	908	515,323
Wells	61,448	-	-	61,448
Transmission Lines and Storage Facilities	5,021,618	25,635	-	5,047,253
Easements	74,256	-	-	74,256
Office Equipment and Furniture	5,825	3,414	2,681	6,558
Vehicles	52,263	-	-	52,263
Buildings	658,864	-	-	658,864
Total Capital Assets	6,383,668	35,990	3,589	6,416,069
Less: Accumulated Depreciation	3,208,419	170,267	3,589	3,375,097
Net Capital Assets	\$ 3,175,249			\$ 3,040,972

Capital assets are recorded above at cost and are being depreciated over their estimated useful lives by use of the straight-line method. The following table reflects depreciation expense for 2019:

	Estimated Useful Life	
Equipment and Tools	10 years	\$ -
Pumps, Treatment Equipment and Facilities	10 years	20,565
Wells	30 years	864
Transmission Lines and Storage Facilities	36-40 years	121,112
Office Equipment and Furniture	5-10 years	314
Vehicles	5 years	5,750
Buildings	39 years	21,662
Total Depreciation		\$ 170,267